

10-1949

Why Throw Free Enterprise in the Waste Basket?

Noble D. Travis

Follow this and additional works at: <https://egrove.olemiss.edu/wcpa>



Part of the [Accounting Commons](#), and the [Women's Studies Commons](#)

Recommended Citation

Travis, Noble D. (1949) "Why Throw Free Enterprise in the Waste Basket?," *Woman C.P.A.*: Vol. 11 : Iss. 6 , Article 8.

Available at: <https://egrove.olemiss.edu/wcpa/vol11/iss6/8>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Woman C.P.A. by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Noble D. Travis is vice-president of the Detroit Trust Company; chairman of the committee on economic education of the Detroit Board of Commerce; a member of the advisory committee of the School of Business Administration, Wayne University; a trustee of the University of Michigan Club in Detroit; president of the Family Service Society of Detroit; a director of the International Institute; and secretary of the Detroit Community Trust.

In spite of this formidable list of important posts, he found time to address the Detroit chapter ASWA on the subject presented in this article. Since it is based on an original survey of printed company reports, it presents information which should be of value to all who are interested in accounting, either public or private.



WHY THROW FREE ENTERPRISE IN THE WASTE BASKET?

By NOBLE D. TRAVIS

Everywhere today men are straining for a glimpse of what lies ahead. Their anxiety is expressed in virtually every public utterance. Statesmen are pondering the ultimate shape of the world. Humanitarians are perplexed over the conditions of individual beings in a specialized and mechanical age. Religionists wonder whether the soul of man will progress or even survive in its contest with brute force. Scientists hypothesize, humanists speculate, forecasters predict. All are grasping for knowledge of a world which is yet in the process of being born. But can we know what is to be, or is the veil complete and impenetrable? In an earlier age man consulted oracles and soothsayers and gazed into crystal balls. There is a tendency in some circles even now to resort to the mysterious. Black magic has not wholly lost its devotees. Wise men know, however, that the way to envisage the future is through an understanding of the present and the past.

As to the past—when Ts'ai Lun invented paper in 105 A.D. he faced an angry crowd of silk makers and bamboo craftsmen. "Your invention," they told him, "is from the devil. Not only that, it is going to throw us out of work." Irishmen digging the Erie Canal with pick and shovel felt the same way about the steam shovel. The stage drivers had no love for the locomotive. Most men

in carriage factories would have nothing to do with an automobile. James Watt, the inventor of the steam engine, which revolutionized the modern world, did more to take women out of the coal mines and off the tow paths of canal boats, more to take children out of the factories, than all of the socialists, communists and politicians of the world combined. Yet Watt would be unknown if one of these despised capitalists, a man named Mathew Boulton, had not risked \$150,000 on Watt's invention. The question might well be asked, would Mr. Boulton have dared to make such an investment under today's conditions.

Today's sixty-four dollar question on the domestic front is this: "Is it possible for the American public to fully understand and appreciate private enterprise and the profit motive?" Private enterprise and the profit motive are inseparable from capitalism. Capitalism began in this country when a few enterprising manufacturers brought a number of workmen together into shops or factories, provided them with all the tools, equipment and materials for production and divided the work into units to increase the volume of production per worker, all for the purpose of making profit.

Certainly, profit is what makes the wheels go around and that which drives capitalism forward. The use of money has led us to

count profits in terms of dollars to such an extent that thousands of men have forgotten that the movement of dollars can be nothing more than the surface indication of an underlying movement of commodity value.

Many panaceas have been projected to solve our economic problems, but because these problems are so little understood, because the essentials of sound economy are not generally known, there is grave danger that the people of America may grasp at mistaken solutions, at glowing promises that cannot be fulfilled. There is an equal danger that some permanent form of economic regimentation may be thrown upon us and that we may surrender our priceless and hard-won liberties under the guise of economic necessity.

As a safeguard against more government control, a widespread knowledge of economic realities must be maintained. It must be made clear to the millions of liberty-loving Americans that two times two still is four, and they must also be able to differentiate between sound and unsound legislation which affects their fundamental freedoms.

Much of the difficulty in the operation of our capitalistic system has sprung from the general ignorance of its principle. When it is understood that profit is made through the exchange of goods, and in turn that profit is invested in new capital goods which will be used to increase the standard of living of every man, woman and child in America, then, and only then, will many of these problems disappear. We are either going to have private enterprise or Government control, and each time private enterprise surrenders something to Government, it also surrenders an equal portion of its freedom.

The something for nothing philosophy is with us today. Various polls have shown that 51% of our people do not know what a balanced budget is; that virtually a third have no conception of the meaning of free enterprise. Many think it is all right to owe a huge national debt to ourselves; that security is something Government can hand out; that inflation is acceptable because it creates wealth; that there are ways to earn more by doing less.

However, the polls clearly indicate that the average American is not interested in Communism. He is not interested in Statism, or Fascism or any other kind of ism. The vast majority of Americans, not only business and industrial leaders, but workers, farmers, and professional men, desire

to maintain private enterprise. Few of them understand how it works.

The people of this country are not nearly so unhappy or dissatisfied as the politician or the labor leader or even the businessman says they are. This is primarily due to the fact that half of the people in America own the homes in which they live. More than one person out of five in this country has a bank savings account, one in fourteen owns shares in some corporation, and 68 million have insurance. We are indeed a capitalistic nation, as none of these things could be truthfully said of any other nation on earth.

The fundamental thinking of the people of America is sound. The danger lies in the constant attack made on private enterprise and the profit system by the many radicals who wish to misinform them.

If private enterprise is to be preserved, businessmen must acknowledge their economic responsibility to the people, and the importance of telling their story in language that is understandable, and in a manner by which it will be believed.

The time has long since passed when businessmen can sit tight and overlook the importance of reporting the year's business in an attractive, understandable annual report. Not only is the annual report being used as a medium of telling the story of the year's business to the stockholder and to the employee, but other media such as sound movies, radio broadcasts, and newspaper and magazine advertisements are being used to inform the general public. However, we have not gone far enough. We have proved beyond a doubt our ability to sell goods and services, but we are still the most inept people in the world when it comes to selling ideas. For some strange reason, every time we begin to sell an idea, we insist on going as far away as possible from the principle used in the sale of our products. There is no fundamental difference between the sale of an idea and the sale of goods or services.

The archaic language of the usual financial statement is susceptible to misinterpretation and misunderstanding. To the man on the street *surplus* may suggest something in excess of the actual needs of the company which may be used to the detriment of the employee, sums unfairly withheld from stockholders. Every investor and employee must look to management. It becomes increasingly important for industry and business to present clearly and graphically the results of the year's business. Most stockholders are not certified public accountants, and employees and voters are

not sufficiently versed in balance sheet terminology to know whether a company is being run for the benefit of a chosen few or for all three—stockholder, employee, and the general public. There must be some attractive understandable presentation of the financial facts regarding the year's business in order to justify and maintain the profit motive.

The opportunity to invest capital profitably can continue only if the people of this country clearly understand that they are vitally interested in the take-home pay of the investor. Unless capital can be invested to provide a reasonable return, revenue will not be available for expansion, for improvement, for new enterprises or for the payment of taxes. It is timely to do some selling of the American economic system. The system should no longer be taken for granted. However, business leaders cannot do it alone. Public men must understand the problems and help rather than hinder. Investors must recognize that profit has limitations and that false profits make all investments secure. Labor must recognize its obligations and its responsibilities. Warfare between labor and employers over wage levels is ruinous to both. Unjustifiable gains for either side end in losses, for lost time means lost production, and production provides both wages and profit.

It is a matter of record that in each of the past several years more corporations have offered better annual reports to stockholders and employees—both in editorial content and in typographical presentation. There is an undeniable trend providing the evidence that alert managements are rapidly recognizing the annual report as a dynamic force in constructive public relations, and as a medium through which to foster a wholesome understanding of industry among shareholders, employees, dealers and customers, as well as in communities where products are manufactured or distributed.

But the improvement in corporation reports in recent years is only the reflection of the good deeds of the few—not a majority. Today, two-thirds of America's corporations are backward in their annual reporting, as measured by the simplest standards of presenting adequate financial statistics and understandable yearly reviews of the business by the board chairman or president, or both!

The trend in improving annual reports is as follows:

The first move was the segregation of current assets and current liabilities which

made it possible for the investor to figure out for himself the "net working capital."

Then came the "comparative" balance sheets at the latest fiscal year-end and the previous one. Then came the introduction of "income accounts" and the publication of sales figures (gross or net). Next were created "financial comparisons" for two years or more; then the breakdown of sales dollars with an "income and out-go" chart or simplified complete income account.

The next improvement in the annual report was the addition of pictures showing plants, branches, offices or stores, with photographs of brand names of their products. Sometimes there were an informal photograph of the company's president to show the stockholders what he looks like, and pictures and biographies of the members of the board of directors. Then came the illustrated or photographic front covers designed by an artist who knows how to develop attractive format and select appropriate typography. Next came the dramatizing of statistics by symbols in cartoon fashion. A recent development is the inclusion of appropriate maps to show the location of plants, sources of raw materials, outlets, distribution centers, retail stores, etc.

A recognized standard of judging annual reports places the emphasis on facts and figures—out of a total possible 100 points, 60 points are considered for editorial content and financial operating statistics, while only 40 points are for typography, format and illustrations.

A modernized annual report can be a strong, interesting, and convincing human document to weld together for the general good of the corporation all of the elements upon which it depends.

It has been suggested that the annual report be strictly a factual document. Facts are the most eloquent exponent of a corporation's performance. Both the company's achievements and its problems should be disclosed. The latter, however, may be interpreted and clarified from the standpoint of the management. It should be understood, also, that an annual report is primarily a review, not a forecast. The stockholders want to know how the management is preparing for the future, but they do not expect any executive officer to assume the role of a prophet.

The physical requirements of any annual report will depend upon a number of factors: (1) the type of industry represented; (2) the size of the corporation, large or small; (3) the audience to which the report

will be sent—whether only stockholders, or if it also will be seen by employees, dealers, customers and others; and (4) whether it is to be a year-end review to be glanced at and tossed into the waste basket, or a “year-book” to be distributed to new stockholders, employees and others during the entire fiscal year.

With some idea of these basic factors, it is possible to determine how far the annual report, or “yearbook,” should go in size and variety of content. Generally speaking, no annual report should be less than 16 or more than 32 pages, and the most popular trim size is 8x11 inches or the same as the average news or business magazine. Not more than 50 per cent of the space should be devoted to editorial content, including the comparative balance sheets and income accounts, plus tabulations of at least ten years of financial and operating statistics. The remainder of the space, the other 50 per cent, should be filled with interpretive chart or pictorial graphs, maps, appropriate photographs (including that of the company’s president and those of major officers and the board of directors), and other appealing illustrations, which will encourage the reader to at least start reading the accompanying text.

Of course, the preparation and layout of the annual report should be turned over to a competent art director or printing production specialist. Very few treasurers or controllers will qualify to handle the typography and format of the report, and fewer board chairmen or presidents should assume authority as to what is good, or is not good, in the artistic presentation of the printed report.

No modernized annual report should be printed in less than two colors, and usually four or more colors are amply justified when the print order exceeds 10,000. In the case of a large corporation with hundreds of thousands of stockholders and employees, a generous supply of color and even expensive illustrations are warranted, because the unit cost of the report booklet is low when the printing run is large.

It must be kept in mind that the majority of the readers of annual reports probably did not finish high school. It is estimated that around 50 per cent of all stockholders are women—a good reason why the corporation annual report should be attractive to look at. The stockholder should not be underestimated. Once counted by the thousands, the shareholders of America today total in the millions.

As each little investor holds stock of only

4 or 5 corporations, each corporation annual report must be good to reassure him that the free enterprise system is most desirable for him, and for all the citizens of this country.

EDITOR’S NOTE: Mr. Travis describes in a letter the procedure used in making the annual surveys and judging the reports:

“In an effort to stimulate greater interest in the creation of more understandable and attractive annual reports the Detroit Trust Company established a library of interim and annual reports which was made available for the use of any interested company so that executives responsible for the preparation of annual reports could conveniently see what other companies are doing and benefit by contact with new methods and ideas.

“Our next important step in this same direction was to sponsor a statewide survey of annual reports published by Michigan companies. All companies whose principal business is in Michigan were invited to mail copies of their annual report covering the fiscal year for judging by an independent and impartial awards committee.

“The many entries were first sorted into two major divisions—reports to stockholders and reports to employees. Then, to equalize the “competition,” the reports were subdivided into six groups according to the size of the participants as determined by number of employees.

“This done, the judges went to work. They had the task of selecting the winners of first, second and third place awards for each type of report (stockholders’ report or employees’ report) in each of the six subdivisions. They also were charged with choosing the best reports designed to go to both stockholders and employees.

“We hope that by presenting these awards for outstanding annual reports we have succeeded in calling attention to the excellent work that is being done in this field by many Michigan companies, and have stimulated others to make similar efforts. We hope that the survey and the recent awards dinner served to encourage a further development of the trend toward clear and informative reporting, essential to a sound understanding of the American system of individual enterprise.”

NEW AWSCPA MEMBERS

AWSCPA welcomes: Betty Orr, 902 Johnson Street, Terrell, Texas, with the Atlantic Refining Company, Dallas, Texas; Marguerite Reimers, 418 Loretta Place, Seattle 2, with Horwath & Horwath; Zara Thomasson, 3812 Fairview Ave., St. Louis 16, with L. Ray Schuessler & Co.; Frances E. Tinsley, 4504 Chestnut St., Philadelphia 39, with Arthur Morton & Company; Mary A. Boyd, 2615 30th St., Lubbock, Texas, self employed; Mary M. Durkan, 903 S. Fillmore St., Arlington, Va., with Board of Governors of the Federal Reserve System; Mildred Jeanette Harry, 1910 East Archer, Tulsa, with Haskins & Sells.